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Determinants of Micro Enterprise Owners' Loyalty towards Their Favourite Banks

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Abstract

Banking is a service that lies in a very competitive industry in most developed and developing countries, with different brands competing in a scenario of increasing banking and credit penetration. In a business-to-professional setting for banking, the range of services that a client uses with a bank is very high compared to retail banking. Thus, this paper would like to examine the loyalty of the micro-enterprise owners towards their favourite banks. Using both local and international banks in Malaysia as the focus of the study, an exploratory research was carried out to assess micro-enterprise owners' level of loyalty to their banks. Self-administered questionnaires were collected from 356 banks' business customers of various conventional and Islamic banks. The findings from this research have shown that a bank's reputation, quality services as well as customer relationship have a direct relationship to micro-enterprise owners' loyalty. The micro-enterprise owners believed that as long as the bank provides good services, a good income is being generated through them with the security factor taken into consideration. This study's findings could provide important directions for the development of a holistic framework to explain the formation and structure of micro-enterprise owners' loyalty towards banking and financial services industries.

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1. Introduction

The role of micro-enterprises in economic growth and development has been widely emphasized by governments of all economies across the globe, and increased efforts have been made to strengthen this sector. Yet, the most critical aspect behind the success of micro-enterprises in any country is access to capital. Major financial institutions are reluctant to lend to small businesses that are left dependent on their own sources of finance or less reliable and informal sources of capital. The consequence of such attitude is reflected in the stagnation of the SME sector and weakening economic environment. The government should help gaining access to financing and equity markets for firms which implement corporate governance. In order to encourage entrepreneurial culture, venture capital firms should also be encouraged through enabling regulatory environment (Mahmood, 2008). Major banks and financial institutions have launched a wide range of products to cater to the needs of the micro-enterprise sector. The consumers now have improved choices of products and services offered by both conventional and Islamic financial institutions. However, the decision between these two financing sources is impacted by a number of factors that drive customer decision at the end of the day. No single factor can be identified as the sole decision-making influencer, but the choice is guided more by instincts and personal experiences than any others.

The scenario has changed that now Islamic banking has become a vehicle for industrial growth and they are keen to attract businesses from other banks and also to retain their customers (Wilson, 1997) while maintaining the basic functions of traditional banks. In fact, Malaysia has a dual banking system, with Islamic banking growing at the rate of 18% per year since 2000 (Aziz, 2006). Despite competition from long entrenched traditional multinational banks, Islamic banks are viewed as ethical investment channels by consumers, in line with the best of corporate social responsibility (CSR) practicing traditional multinational and domestic banks. Islamic banks have been strong in their social orientation in the market, and thus have created a widespread appeal in Malaysia resulting in the growth of the second banking channel. The challenge for these banks lies in giving out the priorities of social orientation and profit making and financial health (Wilson, 1997). There is the argument that customers prefer Islamic banking over traditional banking only when the hygiene factors expected from any service organisation are fulfilled, like quality of service, reputation of the brand and their willingness to retain their customers (Dusuki & Abdullah, 2006).

Above all these considerations is the factor of cost and benefits to the customers. Thus, there is a strong influence of peer opinion on the consumption and exploration decisions of micro-enterprise owners. This creates a need for studying the implications of such behaviour among entrepreneurs and enterprise owners towards customer loyalty in the banking services they choose. This paper aims to investigate the relationship as well as the influence of banks' reputation, perceived service quality and relationship quality towards micro-enterprises owners' loyalty towards their favourite banks.

2. Literature review

2.1. *Micro-enterprise owner's loyalty*

Micro-enterprise owners are more loyal to banks when they are assured that their requirements will be met and at the right time. For a customer to be satisfied, he/she wants his/her interest to be cared for by the bank that is serving him/her. As a result, the level of profit will rise in the micro-enterprise owners' businesses due to the ability to produce varieties of products for their customers. There are many principles which govern micro-enterprise owners' loyalty towards the bank; most common of which are ethics and integrity, trust, honesty and willingness to disclose the information. There is a need for the business to maintain contact with the customers by showing interest in the customers to make them feel part of the business. The business should at times surprise customers by providing them with what they anticipate, and this in turn could help to generate loyalty among the customers. The management should uphold the following as a principle to safeguard loyalty among the customers: reinforcing behaviours of staff, internal benchmarking, resolving of customer requirements, observing competitive ability, determining loyalty among the customers, listening to customers, and improving business practice. Various research studies have shown that loyalty in customers is a result of attitude and behaviour (Capezzi & Cuthbertson, 2004). Loyalty is observed as the relationship between the attitudes of the customers towards the business as compared to other competing businesses. Customer loyalty is directly related to other variables researched in the paper, i.e.

bank's reputation and service quality. Customers tend to be loyal to a business with good reputation; whereby business with a good reputation will also have good customer retention as customers are contented and do not see the need to change banks. Loyal customers bring with them new customers whom they have influence, and the end result is increased in the number of customers, who enhance increase in profit. Increase of the profit in the business contributes to the expansion of the business as it increases the company's capital. Customer loyalty is also influenced by the service customers obtained from the banks; quality service is the key to the foundation of the business. Customers will be satisfied if they are treated well. Satisfied customers will tend to perform more transactions in the bank.

2.2. *Bank's reputation*

Aziz (2006) highlights that for a bank to gain reputation, it can provide lending to micro-finance, in which the bank makes no commitment to future refinancing if the borrower experiences financial distress. A bank with a good reputation can also provide what is called the relationship lending, in which the bank promises refinancing, which could be very costly in the short term. The difference between the future expected returns from arms length lending and that of relationship lending determines the bank's incentives to incur any short-term cost to keep its commitment and maintain a good reputation (Alreck & Settle, 1999). The research also showed that most banks that had low lending rates maintained high customer loyalty. It also revealed that the management of banks highly influenced retention of customers as the very few banks that had scandals among the leadership lost when it came to micro-enterprise loyalty.

2.3. *Perceived service quality*

Quality of service offered by firms is a vital aspect of business management since it drives market growth and performance ratings. Marketing of goods and services within a global market assumes increased significance in the highly competitive industry environment that exposes the firms to increased pressure to deliver high quality products to its consumers (Crew & Kleindorfer, 2009). Therefore, the quality standards underlining the services offered assume increased significance in helping the organizations meet their marketing goals. For many years now the service encounter has been seen as central to service quality and has been termed the "moment of truth" (Salvendy & Karwowski, 2009). Perceived service quality is influenced by both human and non-human elements. The human elements help maintain high levels when it comes to micro-enterprise owners' loyalty and attraction of new customers included word-of-mouth. It occurs that as micro-enterprise owners meet and discuss along the way, they would praise or even disapprove the services offered to them by various banking institutions. The non-human elements include the tangibles, which in particular are evident services offered by the banking institutions like the unsecured loans.

2.4. *Relationship quality*

Other than the bank's reputation and perceived service quality, relationship quality is also a vital variable of the research model. The variable is well-expressed using the following dimensions of trust, commitment and satisfaction. In this research, the relationship between business and its customers were analyzed together with its effect to the bank noted. The research conducted by Ongena and Smith (1998) stressed on the effect of the mutual relationship between the bank and its customers. The relationship has an effect on the performance of the business. Good relationship between the bank and its customers has proven beneficial to both parties. Customers tend to be loyal to a company which gives them good services. The result of a good relationship between the parties is increased profits to the bank and quality services to the customers. Satisfaction of customers is only achieved when the customers get what they want at the right time. Convenience and competitiveness are important factors in determining if the customers are contented with the services of the banks. Research conducted by Thureau (2002) shows that commitment and trust are the key factors in delivering customer satisfaction. Relationship quality from the bank normally results in satisfaction to the customers. When the customers are satisfied, they commit themselves

to the business and the end result is that they are loyal. From the qualitative findings, it can be seen that relationship quality and micro-enterprise owners' loyalty are present and a relationship between them is established (Kasuma, 2012). Micro-enterprises confidence or trust results in commitment in the business relationship. Committed micro-enterprise owners' would spend in the bank and also influence other customers to do transaction with the bank. On the other hand, the bank focuses on developing a long-term relationship with customers by giving high priority customer service, frequent customer interaction, improved customer commitment and trust, and promoting high quality practices among workforce. Relationship quality is also assessed through a bank's performance from a small business perspective (Crosby et al., 1990; Dorsch et al., 1998 and Dwyer et al., 1987). According to Dwyer et al. (1987), relationship quality is different from high levels of satisfaction and trust, and minimal opportunism.

3. Methodology

To accomplish the objectives of the study, a survey questionnaire was employed as an instrument to collect data. For this study, specific respondents, who were the banks' micro-enterprise owners involved in service-based industries, were selected. For the reasons of accessibility, the convenience sampling from the banks' customer database, SMECORP (Small and Medium Enterprises Corporation Malaysia) and MATRADE (Malaysian External Trade Development Corporation) was employed. Multiple regression analysis was used to establish the significant relationship between the constructs. Micro-enterprise owners should have only one most favourite bank, and this qualifies them to be the respondent for this study. Banks involved in this study were local and foreign conventional and Islamic banks operating in Malaysia, especially within the Klang Valley. Roscoe (1975) proposed that the rule of thumb for determining a sample size is that – if the sample size is larger than 30 and less than 500, it is therefore appropriate for most research. The questionnaires were emailed and also sent directly to their offices (drop-off and collect) for self-administration. A pilot study was conducted in order to test the questionnaire item validity with a total number of 30 respondents. The results of the pilot study showed that all the variables were above 0.6, which were acceptable for reliability test.

The majority of the respondents were between 46-55 years old. This group of 122 respondents accounted for 34.3% of the respondents. The second significant group aged between 36-45 years old, which consisted of 102 respondents representing 28.7% of the respondents. These two groups represent 63% of all the respondents. The major ethnic group of the respondents was Malay. This group accounted for 50.6% followed by the Chinese (21.3%) and the Indians (18.3%). The minority group, which had only 5.3% (natives of Sabah and Sarawak) and Eurasians (4.5%) of the respondents.

In terms of business practices, it was noted that majority of the micro-enterprise owners in this study involved in Wholesales and Retails or 25.3% of the respondents. There were 59 micro-enterprises owners or 16.6% who were involved in Professional Services, while there were 50 micro-enterprises owners or 14% who were involved in Consultancy Services. Transport, Logistic and Equipment, as well as Real Estates and Insurance were among the lowest total of micro-enterprise owners who were involved in this study, which accounted for 21 micro-enterprise owners or 5.9%, and 15 of micro-enterprise owners or 4.2%, accordingly.

4. Findings and discussions

This paper aims to investigate the relationship as well as the influence of banks' reputation, perceived service quality and relationship quality towards micro-enterprises owners' loyalty towards their favourite banks. To attain this purpose, regression analysis and multiple regression were used to answer all the study objectives.

Table 1. Summary of regression results for all variables with micro-enterprise owners' loyalty.

Variables	R	R2	Adjusted R2	Change Statistics		
				R2 Change	F Change	Sig. F Change
Bank's Reputation	.571 ^a	.326	.324	.326	170.978	.000
Perceived Service Quality	.673 ^a	.453	.452	.453	293.380	.000
Relationship Quality	.752 ^a	.566	.564	.566	460.921	.000

Table 1 shows that all the variables investigated and analysed using regression analysis were significant with Sig.F Change = 0.000. The adjusted R square for bank's reputation was .324, and this indicates that 32.4 percent of the variance in loyalty had been significantly explained by the bank's reputation. In this model, $r = 0.571$ indicates a moderate strength of relationship (Malhotra, 2007) between bank's reputation and micro-enterprises owners' loyalty. For perceived service quality, the adjusted R square was 0.452, and this indicates that 45.2 percent of the variance in loyalty had been significantly explained by perceived service quality, which makes the model stronger than the bank's reputation model. In addition, this finding gave an average value of r (0.673), which showed that the relationship between perceived service quality and micro-enterprises owners' loyalty was just average. Finally, the adjusted R square for relationship quality was 0.564 and this indicates that 56.4 percent of the variance in loyalty had been significantly explained by relationship quality, which makes the model stronger than the bank's reputation model and perceived service quality. Meanwhile, this model also shows that there was a strong relationship between the relationship quality and micro-enterprises owners' loyalty, with r 0.752.

3.1. The influence of the variables

Table 2 clearly shows the effect of the model on bank's reputation, perceived service quality and relationship quality, respectively, towards the level of micro-enterprise owners' loyalty on their favourite banks. Positive image of the bank's reputation leads to higher level of loyalty, i.e. the higher the level of positive bank's reputation, the higher the level of micro-enterprise owners' loyalty towards the favourite bank. Increase in positive bank's reputation by 0.731 will lead to the increase of loyalty by 1 unit.

Table 2. The coefficients of bank's reputation vs. the micro-enterprise owners' loyalty.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Bank's Reputation	.899	.212		4.238	.000
	.731	.056	.571	13.076	.000
Perceived Service Quality	-.013	.215		-.062	.951
	.958	.056	.673	17.128	.000
Relationship Quality	-.209	.181		-1.151	.251
	1.024	.048	.752	21.469	.000

a. Dependent Variable: Micro-enterprise owners' loyalty

Positive perception of service quality leads to higher level of loyalty, i.e. the higher the level of positive perceived service quality, the higher the level of micro-enterprise owners' loyalty towards the favourite bank. Increase in positive perceived service quality by 0.958 will lead to the increase of loyalty by 1 unit.

Positive and good relationship quality leads to higher level of loyalty, i.e. the higher the level of positive relationship quality, the higher the level of micro-enterprise owners' loyalty towards the favourite bank. Increase in positive relationship quality by 1.024 will lead to the increase of loyalty by 1 unit.

5. Discussion and implications

Banks' reputation has a direct effect on micro-enterprise owners' loyalty towards their favourite banks. The reputation of an organisation plays a vital role in determining the success of that organization. Whether an organization is service oriented or involves in manufacturing, reputation is of high importance. In service-oriented organizations, such as banks, reputation is of high importance in determining customer behaviour (Wang & Hing, 2003). Barich and Kotler (1991) stated that customer loyalty is likewise improved specially in the retail banking sector, where it becomes impossible to evaluate quality accurately before delivery of services. According to Nguyen and Leblanc (2000), reputation is the most effectual means that a company can use to market its products or services to a wide population and be able to satisfy its customer needs. The more the bank has better and higher quality

services as well as products, the more it achieves a strong reputation. Through reputation, the bank is in a position to retain customers for a long period (Caminiti, 1992). Therefore, the research concludes that banks' reputation has a direct effect on micro-enterprise owners' loyalty towards their favourite banks.

Perceived service quality has a direct effect on micro-enterprise owners' loyalty towards their favourite banks. An idea that is associated with customer loyalty is perceived quality. The quantitative finding found that perceived quality services contribute greatly to customers' loyalty than banks' reputation. This is because customers would wish a bank to offer them 24/7 services. Anderson and Sullivan (1993) assert that satisfaction depends highly on the price charged, whereas perceived quality does not depend on the price charged. However, customer satisfaction influences customer perception of the value of the services received. Bank practitioners are keen on evaluating perceived quality services to enhance better understanding of their consequences and strategies for improving the quality in order to achieve the desired customer loyalty and build a strong competitive advantage. Customers would feel valuable when consulted and welcomed once they visit the bank. Ruyter and Wetzel (1998) explain that it is essential to promote the company's ability in maintaining customer loyalty and quality services. Furthermore, it is strongly believed that quality services positively affect customer loyalty. Therefore, quality service has become an important aspect in determining customers' loyalty towards their favourite banks. It is evident in this research that when providing services, the method for assessing quality services is complex to determine.

Relationship quality has a direct effect on micro-enterprise owners' loyalty. Relationship quality has developed as a result of the marketing research theories (Crosby & Cowles, 1990). The aim of quality relationship is to promote the existing bank customer relationship and bring a change of loyalty to different clients in the bank. In this research, the concept of quality relationship influencing micro-enterprises owners' loyalty towards their favourite banks consists of other distinct related dimensions, such as trust, commitment, and satisfaction towards bank policies and procedures. Furthermore, these factors were analyzed in order to access how micro-enterprise owners' loyalty towards their favourite banks was influenced. Therefore, when relating to customer loyalty, the significance of trust is to gain customer loyalty (Reichheld & Scheffer 2000; Kanyan et al. 2015). Furthermore, trust is a vital feature in the development of relationship quality, which is developed through developing and keeping their promises (Hewett & William, 2001). In relation to this study, trust has a direct effect on customer loyalty.

6. Conclusion and recommendations

Empirical results of this research recommend that to maintain customer loyalty with micro-enterprise owners, the bank needs to put extra effort in promoting customer satisfaction as well as developing an outstanding service system. Moreover, in order to maintain the attitudinal customer loyalty of micro-enterprise owners, the bank should focus on creating a quality relationship through creating customer trust, commitment level and again promoting a quality service system.

At a general level, customer loyalty is essential to many organizations particularly those that deal directly with customers. In particular, customer loyalty is vital in businesses, such as hotels or hospitals, where customer satisfaction is an important element and contributes to the success of an organization. Banks' reputation, perceived service quality, and relationship quality contribute to the success of such an organization. Banks, hotels and hospitals can influence customer loyalty by focusing on reputation, quality services, and quality relationship. Frequently, clients who visit hospitals and hotels are mostly concerned about customer service, organizational reputation, and quality services. Therefore, this research can be recommended for other organizations in the future.

The bank research group should focus on environmental factors as well as religiosity and ethnicity or cultural issues related to the customers. This will help to enhance customer loyalty and retention. Although customer loyalty has been assessed in the past, it remains one subject that all banks need to continue researching to overcome different challenges in the banking sector. It is important to incorporate new technologies to measure the bank's loyalty in future research.

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